

July 1, 2019

Heads Up

Research Flash Update

Aqua America, Inc.

(WTR/NYSE)

Rating/Risk:	Outperform/Moderate
Price*:	\$41.37
Target Price (\$US):	\$43.00
Market Cap (\$US millions):	\$8,925
ADTV (US\$ millions):	\$4.6

Price as-of Prior Day Close

*Target Price and Rating are for 12 months.

EPS	Q1	Q2	Q3	Q4	FY	P/E
2018A	\$0.29	\$0.37	\$0.44	(\$0.02)	\$1.08	38.3x
2019E	\$0.09	\$0.40	\$0.50	\$0.28	\$1.28	32.4x
2020E	\$0.25	\$0.41	\$0.52	\$0.30	\$1.49	27.8x

FYE 12/31; Q1-19 represents actual EPS.

Source: Capital IQ, B&S Estimates

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PA-PUC approval of Peoples deal inches closer; Peoples rate case settlement appears imminent.

Last week, Aqua formally filed the non-unanimous settlement agreement with the PA-PUC for its pending acquisition of Peoples Natural Gas, and overall the terms include no major incremental surprises and read favorably from a shareholder perspective.

Notable provisions include:

- A 7-year, \$120 million plan to rehabilitate the Goodwin/Tombaugh gas gathering assets, to be recovered via base rates (not DSIC).
- \$23 million in rate credits shared across Peoples and Aqua water/WW customers, to be applied by year-end 2019. This is below the \$30-\$40 million typical in such cases, and keeps the EPS impact within 2019, which is rife with deal-related noise anyway.
- Plans to accelerate replacement of gas distribution pipe within the Peoples system by \$30 million a year (which translates into an enhanced rate base growth opportunity).

Based upon statutory timing parameters and precedent, we expect the ALJ to render a proposed decision within 3-4 weeks and for the settlement to come before the PUC for a vote in the September-October timeframe (of note, we believe the potential still exists for a unanimous settlement, which would accelerate this timing).

Separately, evidentiary hearings for the Peoples Gas rate case were abruptly cancelled, suggesting a settlement agreement is imminent. We expect a settlement to be announced in the days/weeks ahead, creating a positive catalyst for WTR shares.

With the Peoples close likely slipping into the fall, visibility on 2020 earnings is likely to remain extremely limited into late 2019. Repair tax treatment is a key variable impacting 2020 expectations, and it remains to be seen how this will affect earnings over the next 12-18 months. Aqua's 2012 adoption of flow-through accounting for repairs on the water side created an immediate and sizable earnings boost, but the company may take a different approach on Peoples.

Overall, WTR remains our top idea in the water utility space due to the combination of discount valuation and fundamental catalysts. We rate WTR shares Outperform, with our \$43 target price based on our proprietary regulation-weighted relative valuation model (click [HERE](#) for RCI rankings report and valuation model).

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Disclosure Appendix

Rating and Price Target History:



Risk Factors

The realization of any or all of the following risk factors, among others, may adversely affect the company's stock price and prevent it from reaching our price target: the economic cycle, concentration in energy sector, foreign currency exposure, and client concentration.

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Boenning & Scattergood received compensation for investment banking services from the subject company within the past 12 months.

Boenning & Scattergood has managed a public offering and received compensation from the subject company within the past 12 months.

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Our three-tier investment ratings are based on a stock's return potential relative to a broad market index:

- **Outperform (Buy):** The security's total return over the year or longer is expected to exceed the total return of the S&P 500™ over the identical period.
- **Neutral (Hold):** The security's total return over the next year or longer is expected to be roughly equivalent to the total return of the S&P 500™ over the identical period.
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Coverage Universe	% of Universe	Investment Banking Clients (a)	% of Rating Group
Outperform (Buy)	43%	Outperform (Buy)	13%
Neutral (Hold)	48%	Neutral (Hold)	18%
Underperform (Sell)	0%	Underperform (Sell)	0%
Not Rated	9%	Not Rated	13%

(a) Related to services provided within the past 12 months.

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